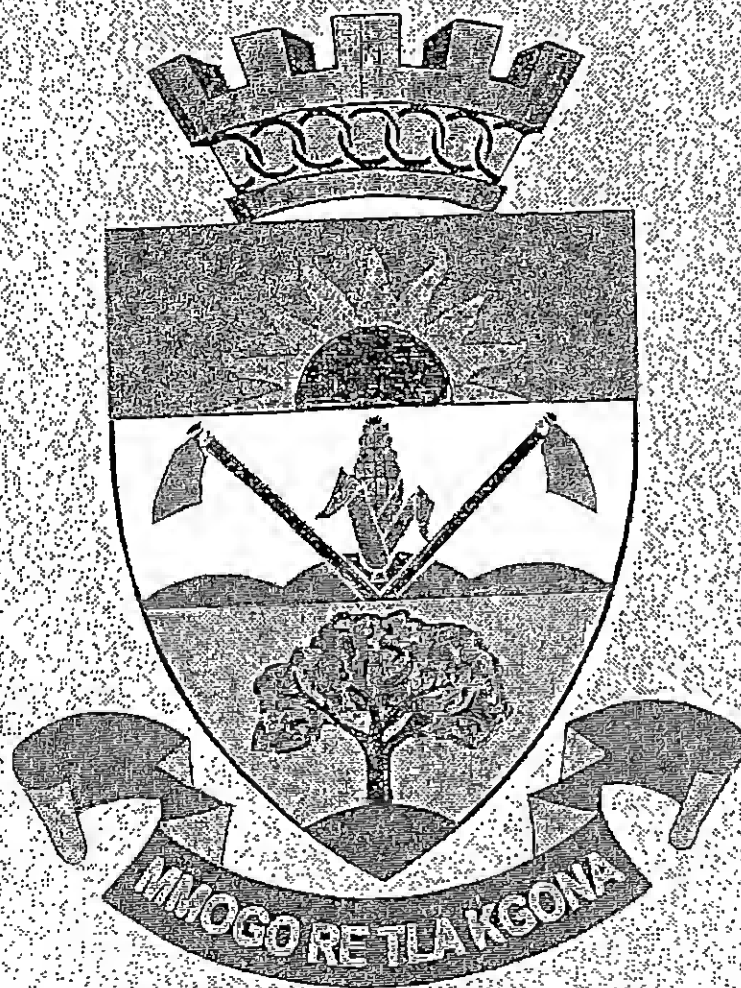


AGANANG

LOCAL MUNICIPALITY



AUDIT REPORT
2011/12



AUDITOR - GENERAL
SOUTH AFRICA

The Accounting Officer
Aganang Local Municipality
P.O. Box 990
Juno
0748

30 November 2012

Reference: 60051REG11/12

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Aganang Local Municipality for the year ended 30 June 2012.

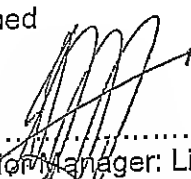
1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA, you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



.....
Senior Manager: Limpopo

Enquiries: Baby Mathew
Telephone: 015 283 9300
Fax: 015 283 9401
Email: babym@aqsa.co.za

REPORT OF THE AUDITOR-GENERAL TO LIMPOPO PROVINCIAL LEGISLATURE AND COUNCIL ON: AGANANG LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Aganang Local Municipality, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, statement of changes net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice Issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Accumulated surplus

4. SA Standards of GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors* requires that:
 - the entity shall disclose the nature of prior period error for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected; the amount of the correction at the beginning of the earliest prior period presented;
 - if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

The statement of changes in net assets includes a prior period adjustments amounting to R1 176 952 for which no supporting evidence was provided for the journals passed during the 2011-12 financial year. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all corrections were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, valuation and allocation pertaining to the corrections and thereby the accumulated surplus balance amounting to R112 321 946.

Property plant and equipment

5. The municipality did not review the residual value and useful lives of all items of property plant and equipment as required by SA Standards of GRAP 17, *Property Plant and Equipment*. I was unable to confirm or verify, by alternative means, the value of property, plant and

equipment included in the financial statements of R93 990 013 (2011: R73 893 940). I have not determined the net carrying amount of property, plant equipment as it was impractical to do so.

6. The municipality did not disclose comparative information for property, plant and equipment on note 5 to the financial statements as required by the SA Standards of GRAP 1, *Presentation of Financial Statements*.
7. I could not trace several assets to the accounting records of the municipality and thereby I was unable to confirm the completeness of other assets amounting to R8 819 768 (2011: R11 055 436), as disclosed per note 11 to the financial statements. The entity's records did not permit the application of alternative audit procedures regarding the completeness of movable tangible assets.
8. Property, plant and equipment amounting to R15 844 764 could not be verified for existence as the municipality's accounting records did not contain asset numbers and correct locations to facilitate such verification. Included in the accounting records and financial statements are duplicated assets amounting to R5 276 752 that were not removed from the accounting records. I was unable to confirm the existence of these assets by alternative means. Consequently I was unable to determine whether any adjustment relating to property, plant and equipment in the financial statements was necessary. I was unable to obtain sufficient appropriate audit evidence to confirm the existence of a significant number of assets included in property, plant and equipment.

Value Added Tax (VAT)

9. The VAT receivables balance amounting to R8 915 425, as disclosed on note 7 to the financial statements, does not agree to the balance of R3 249 562 as per VAT reconciliation. The municipality did not provide evidence for the difference of R 5 665 863 between the financial statements and the underlying VAT reconciliation. Consequently, VAT receivables balance of R8 915 425 (2011: R5 030 793) is overstated by R5 665 863 (2011: R3 079 410). I was unable to determine the effect of this misstatement on other account balances or classes of transactions contained in the financial statements.

Trade and other receivables

10. As per International Accounting Standard (IAS) 39, *Financial Instruments - Recognition and Measurement*, an entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. Contrary to the above requirement, the municipality did not assess its receivables amounting to R27 100 190 for the impairments as per the above requirements. Consequently I was unable to determine whether any adjustment relating to the impairment in the financial statements was necessary.

Provisions

11. The provision for leave amounting to R1 760 952 as disclosed in note 8 to the financial statements was not split between the portion of the provision which is expected to be settled within 12 months of the reporting date and the portion of the provision which is expected to be settled more than 12 months after the reporting date, as required by SA Standards of GRAP 19, *Provisions*. Furthermore, the value of the provision as determined by the municipality does not take into account the expected mortality rates and discounting of the long term portion of

the leave pay provision in terms of the above standard. I have not determined the correct value of the provision for leave pay as it was impractical to do so.

12. The SA Standards of GRAP 1 – *Presentation of Financial Statements* requires that an entity discloses the following; where classification of balances has changed on the financial statements when compared to the prior year:

- The nature of the reclassification
- The amount of each item or class of items that is reclassified
- The reason for the reclassification

The municipality changed the classification for the staff leave accrual balance amounting to R1 760 952 and provision for bonuses amounting to R16 000. Contrary to the requirements of the above standard, the municipality has not disclosed the nature of the reclassification, the amount for each financial statement item affected and the reasons for the change in classification. There were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that the reclassification was proper and necessary. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the adequacy of the reclassification on the note 6 to the financial statements.

Revenue

13. Revenue from traffic fees amounting to R1 085 408 as disclosed in note 17 to the financial statements, does not agree to the balance of R1 717 219 as per the e-NaTIS report. The municipality did not provide any reconciliation or evidence for the difference of R631 811 between the financial statements and the underlying e-NaTIS report. Consequently, traffic fees balance amounting to R1 085 408 is understated by R631 811. I was unable to determine the effect of this on the other account balances or classes of transactions contained in the financial statements.

Expenditure

14. The municipality could not provide sufficient appropriate audit evidence to support journal entries amounting to R4 147 454 that were processed in the accounting records during the year. There were no satisfactory audit procedures that I could perform to obtain reasonable assurance that all journals have been properly authorised, classified and accurately recorded. Consequently I was unable to determine whether any adjustments relating to operating expenditure in the financial statements was necessary.

Fruitless and wasteful expenditure

15. Due to inadequate implementation of an effective expenditure management system, I was unable to obtain sufficient appropriate evidence that the irregular expenditure of R283 122 as disclosed in note 26 to the annual financial statements is complete.

Contingent liabilities

16. As per note 29 to the financial statements, the municipality has disclosed R26 908 282 as contingent liabilities and municipality could not provide any satisfactory evidence to confirm this disclosure. There were no alternative procedures that I could perform to confirm the valuation, completeness and existence of the disclosed contingent liabilities as required by paragraph 95 of SA Standards of GRAP 19, *Provisions, Contingent Liabilities and Contingent Assets*.

Cash flow statement

17. Presentation of a cash flow statement, summarising the municipality's operating, investing and financing activities, is required by SA Standards of GRAP 2, *Cash flow statements*. I

have noted that the cash flow statement from operating activities is understated by R6 719 404.

Furthermore, due to the multiple uncertainties and misstatements identified for all of the major classes of transactions and account balances mentioned in the preceding paragraphs, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy and completeness of the amounts included in the cash flow statement.

Commitments

18. No contract management system was in place for the identification and recognition of contracts and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all commitments were properly recorded. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of commitments of R19 151 738 as stated in note 28 to the financial statements.

Irregular expenditure

19. The municipality made payments amounting to R523 368 in contravention of the supply chain management requirements. The municipality did not disclose irregular expenditure in the notes to the financial statements as required by section 125(2)(d) of the MFMA.
20. The municipality could not provide tender files and other supporting documents for contracts awarded amounting to R19 545 540. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that contracts were awarded in accordance with the supply chain management regulations. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that the expenditure incurred on these awards was not irregular.

Related parties

21. International Public Sector Accounting Standard IPSAS 20, *Related-party disclosures* and section 124 of the MFMA requires disclosure of the remuneration of councillors. The comparative information on the remuneration of councillors R6 738 894 has not been disclosed on the note 19 to the financial statements.

Restatement of corresponding balances

22. The SA Standards of GRAP 3, *Accounting Policies, Changes in Accounting Estimates Errors* requires that the nature of the prior period error, the amount of the correction for each financial statement line item affected and the amount of the correction at the beginning of the earliest prior period presented. The municipality disclosed an amount of R4 272 682 (2011:R1 760 952) for correction of prior year errors. Contrary to the above standard the municipality has not disclosed the nature of the prior period error on note 25 to the financial statements.

Accounting policies

23. The SA Standards of GRAP 1, *Presentation of Financial Statements* requires that an entity discloses all significant accounting policies required by the SA Standards of GRAP and policies critical to the understanding of the financial statements. Contrary to this the municipality has not disclosed the following accounting policies on the notes to the financial statements:

- Related parties
- Commitments
- Budget information
- Short term employee benefits

Disclaimer of opinion

24. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

25. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material under spending of the conditional grant

26. As disclosed on note 9 of the financial statements, the municipality has materially underspent the municipal infrastructure grant to the amount of R9 608 223. As a consequence, the municipality has not achieved its development priority of basic services and infrastructure delivery.

Additional matter

27. I draw attention to the matters below. My opinion is not modified in respect of these matters

Unaudited supplementary schedules

28. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

29. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control; but not for the purpose of expressing an opinion.

Predetermined objectives

30. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages XX to XX of the annual report.

31. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned development priorities or objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information (FMPPI)*.

The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

32. The material findings are as follows:

Usefulness of information

Presentation

33. Improvement measures in the annual performance report for a total of 68% of the planned

targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000)(MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

34. Section 46 of the MSA requires the disclosure of measures taken to improve performance in the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 72% of all measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity of the measures taken to improve performance.

Reliability of information

Accuracy

35. The National Treasury *FMPPI* requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total of 33% and 40% of the actual reported indicators relevant to basic services and infrastructure development and economic development, respectively were not accurate when compared to source information. This was due to a lack of monitoring and review of actual achievements by senior management and internal audit.

Additional matter

36. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

37. Of the 180 of planned targets, only 115 were achieved during the year under review. This represents 36% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process

Compliance with laws and regulations

38. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements, performance and annual report

39. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected which resulted in the financial statements receiving a disclaimer audit opinion.
40. The annual performance report for the year under review does not include measures taken to improve performance, as required by section 46 (1)(c) of the MSA.

Audit committee

41. The performance audit committee did not meet at least twice during the financial year, as required by Municipal Planning and Performance Management regulation 14(3) (a).

Expenditure management

42. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
43. The accounting officer did not take effective steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
44. Unauthorised and fruitless and wasteful expenditure was not recovered from the liable persons, as required by section 32(2) of the MFMA.

Procurement and contract management

45. The municipality made awards to a close family member of a council and this fact has not been disclosed in the financial statements of the municipality as required by paragraph 45 of the SCM regulations.
46. Public invitations advertised for a period shorter than 14 days as required by SCM Regulations 22(1) and 22(2) and the deviation was not approved by accounting officer or a properly delegated official.

Revenue management

47. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

Asset management

48. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
49. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Internal control

50. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for a disclaimer opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

51. The accounting officer does not review the financial statements and the annual performance report prior to their submission for audit.
52. Oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not exercised. There were no constant performance monitoring and evaluation implemented for the employees in order to achieve the required performance objective.
53. The accounting officer did not implement HR management effectively to ensure that adequate and sufficiently skilled resources are in place.

Financial and performance management

54. Controls over daily and monthly processing and reconciling of transactions were not implemented by the accounting officer

55. The financial statements and other information to be included in the annual report are not reviewed for accuracy and completeness by the accounting officer.

56. During the year the post of Chief Financial Officer (CFO) was vacant and the acting CFO solely depended on the consultants in the preparation of annual financial statements.

57. Compliance with laws and regulations was not reviewed and monitored by the accounting officer.

Governance

58. The audit committee did not adequately review the financial statements and annual performance report for adequacy, reliability and accuracy prior to submission for audit.

59. Internal audit does not review the financial and performance reports prior to its submission to the audit committee or external auditors.

Handwritten signature

Polokwane

30 November 2012



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence